

Statement of Social Insurance Trust Fund Status
Railroad Unemployment Insurance Account and Administration Fund, Combined

BENEFIT PROVISIONS

The Railroad Unemployment Insurance Act provides benefits for qualified railroad employees. The Act is designed to restore part of their wage loss arising from unemployment or sickness (including maternity). Payments are made for days of unemployment or sickness in a benefit year, which begins on July 1, to employees who had sufficient earnings in the preceding calendar year (called the base year) to meet the qualifying conditions.

Qualifications

Qualified employee.—A "qualified employee" is one who earns qualifying creditable compensation in a base year counting no more than a certain amount in any month. In addition, a new employee must have some employment in at least 5 months of the first year worked in the railroad industry in order to draw benefits in the following benefit year.

General eligibility requirements.—To be eligible for unemployment benefits, a qualified employee must be able to work and be available for work. A "day of unemployment" is a day on which he or she meets these conditions and does not receive any pay, is not disqualified, and has properly registered for unemployment benefits. Any calendar day on which the employee does not work solely because of mileage-limitation or work-restriction agreements or solely because he or she is between regularly assigned trips or tours of duty or because a turn in pool service was missed is not considered a day of unemployment.

To be eligible for sickness benefits, a qualified employee must be unable to work because of illness or injury. A "day of sickness" is a day on which the employee meets these conditions and for which he or she does not receive any pay and has filed a "statement of sickness" providing evidence of the employee's medical condition signed by the employee's doctor (or other authorized individual).

Benefits

The maximum daily benefit payable in benefit year 2001-2002 (July 2001 - June 2002) is \$50; and, for biweekly claims, maximum benefits can total \$500. The maximum daily benefit rate may increase at the beginning of each future benefit year depending on the growth in average national wages.

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Registration and waiting period.—Benefits are normally paid for the number of days of unemployment or sickness over four in 14-day registration periods. Initial sickness claims must also begin with four consecutive days of sickness. However, during the first 14-day claim period in a benefit year, benefits are only payable for each day of unemployment or sickness in excess of 7, which, in effect, provides a 1-week waiting period. But, only one 7-day waiting period is required during any period of continuing unemployment or sickness, even if that period continues into a subsequent benefit year.

Normal benefits.—Normal benefits are paid for up to 130 days (26 weeks) in a benefit year. Benefit rights are exhausted when a benefit year ends (normally June 30) or earlier if benefit payments equal base year creditable earnings.

Extended benefits.—If an employee has at least 10 years of service and exhausts normal unemployment or sickness benefits, he or she may be eligible to receive extended benefits for up to 65 days (13 consecutive weeks). Also, if the employee is not qualified for normal benefits in the current benefit year, but received normal benefits in the previous year, he or she may still be eligible for extended benefits.

FINANCING UNEMPLOYMENT AND SICKNESS INSURANCE

Under the Railroad Unemployment Insurance Act, an employee's eligibility for benefits is based on taxable earnings in a calendar year and normally applies only to benefits in the benefit year starting the following July 1. Given this limited period of potential benefits, the financing of railroad unemployment and sickness benefits is essentially a short-term proposition in comparison to the financing of retirement benefits. An employee's eligibility for unemployment or sickness benefits ceases within 2 years after he or she leaves railroad work, while eligibility for railroad retirement annuities continues for decades after an employee with 10 years' service leaves the industry. Consequently, in a given series of benefit years, gradually declining rail employment is less of a factor than major recessions or work stoppages causing industry-wide unemployment on a temporary basis.

Contributions

The railroad unemployment and sickness benefit programs are financed exclusively by contributions of railroad employers, based on the taxable earnings of their employees. The employees themselves do not contribute.

Experience-based tax rates were phased in during 1991. Each employer pays contributions at a rate which takes into consideration the employer's actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay contributions at a lower rate than employers with higher levels of benefit usage. Each employer's rate also has a

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component for administrative expenses and a component to cover costs shared by all employers.

In 2001, the tax rates on railroad employers, including covered commuter railroads, range from a minimum of 2.15 percent to a maximum of 12 percent. Over three-fourths of employers are being assessed 2.15 percent in 2001. New employers in 2001 initially pay a tax of 2.59 percent, which represents the average rate paid by all employers in the period 1997-1999.

Surcharges of 1.5 percent or 2.5 percent are added to all employers' unemployment insurance tax rates, subject to the applicable maximum rate, during any year in which the balance in the Railroad Unemployment Insurance Account as of the close of business on the preceding June 30 is less than \$100 million (as indexed) but greater than zero. If the account balance is less than zero, the surcharge will be 3.5 percent. If the account balance on the preceding June 30 is above \$250 million (as indexed), the excess will be refunded to the employers in the form of a rate reduction for the year through a pooled credit. Each employer's tax rate (prior to application of individual maximum and minimum limitations) will be reduced by the ratio of the excess amount to the taxable payroll of all employers.

The experience-based tax rates have a 12 percent maximum, or a 12.5 percent maximum if a 3.5 percent surcharge is in effect. Included in the rate is the basic rate, an administration tax rate of 0.65 percent, and, if either is applicable, the surcharge rate or the rate of the pooled credit. The minimum rate which any employer can pay is 0.65 percent.

RAILROAD UNEMPLOYMENT INSURANCE ACCOUNTS

Railroad unemployment insurance funds not needed immediately for the payment of benefits are deposited in the Railroad Unemployment Insurance Account maintained by the Treasury. This account, together with similar accounts for each State, forms a national unemployment trust fund. Deposits in the unemployment trust fund are invested by the Treasury in securities of the U.S. Government. Every quarter, the Railroad Unemployment Insurance Account and the Railroad Unemployment Insurance Administration Fund each receive a proportionate share of the interest earnings of the trust fund, based on average daily balances.

The Railroad Unemployment Insurance Administration Fund, separate from the Railroad Unemployment Insurance Account, pays the costs of administering the railroad unemployment insurance system. An amount equal to 0.65 percent of taxable payroll is set aside from railroad contributions for the Railroad Unemployment Insurance Administration Fund. Any amount in the Railroad Unemployment Insurance

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Administration Fund in excess of \$6 million (on an accrual basis) on September 30 of any year is transferred to the Railroad Unemployment Insurance Account.

Borrowing Authority

To ensure adequate funds in periods of high unemployment, Congress gave the Board authority in 1959 to borrow money from the Railroad Retirement Account for the payment of benefits from the Railroad Unemployment Insurance Account.

FINANCIAL REPORT

The Railroad Retirement Board is required to report annually to the Congress on the financial status of the railroad unemployment insurance system. The reports must include any recommendations for financing changes which might be advisable, including any adjustment the Board recommends regarding the rates of employer contributions.

The railroad unemployment insurance financial report submitted in June 2001 was generally favorable. Even as maximum benefit rates increase 52 percent from \$48 to \$73 from 2000 to 2011, experience-based contribution rates are expected to keep the unemployment insurance system solvent, except for a short-term cash-flow problem in fiscal year 2002. However, projections show a quick repayment of the loans even under the Board's most pessimistic employment assumption. The average employer contribution rate remains well below the maximum throughout the projection period, but a periodic resumption of the surcharge required to maintain a minimum account balance was also predicted. No financing changes were recommended by the Board.

The following charts show the major assumptions used in the projections, the primary projected cashflows related to the railroad unemployment insurance program under three different sets of assumptions and the historical trends of factors affecting income and outgo. The three sets of assumptions relate to the health of the railroad industry rather than the impact of recession/unemployment on the national economy.

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Table 3. Major Assumptions Used to Project Cash Inflow and Outflow of the Railroad Unemployment Insurance Accounts, Based on the Section 7105 Report for June 2001

| | Fiscal Year | | | | | | | | | | |
|--|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| <u>Intermediate Assumptions</u> | | | | | | | | | | | |
| Average railroad employment | 240,000 | 234,000 | 229,000 | 223,000 | 218,000 | 213,000 | 208,000 | 203,000 | 198,000 | 193,000 | 189,000 |
| Unemployment benefits: | | | | | | | | | | | |
| Claimants per qualified employees | 6.2% | 5.9% | 5.6% | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% |
| Average compensable days | 61.0 | 61.5 | 62.0 | 62.0 | 62.0 | 62.0 | 62.0 | 62.0 | 62.0 | 62.0 | 62.0 |
| Sickness benefits: | | | | | | | | | | | |
| Claimants per qualified employees | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% |
| Average compensable days | 71.0 | 70.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 |
| Ratio of net to gross benefits | 0.62 | 0.61 | 0.60 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 |
| <u>Optimistic Assumptions</u> | | | | | | | | | | | |
| Average railroad employment | 243,000 | 240,000 | 237,000 | 234,000 | 231,000 | 229,000 | 226,000 | 223,000 | 221,000 | 218,000 | 215,000 |
| Unemployment benefits: | | | | | | | | | | | |
| Claimants per qualified employees | 6.2% | 5.6% | 5.0% | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% |
| Average compensable days | 61.0 | 60.0 | 59.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 |
| Sickness benefits: | | | | | | | | | | | |
| Claimants per qualified employees | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% |
| Average compensable days | 71.0 | 70.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 |
| Ratio of net to gross benefits | 0.62 | 0.61 | 0.60 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 |
| <u>Pessimistic Assumptions</u> | | | | | | | | | | | |
| Average railroad employment | 237,000 | 227,000 | 219,000 | 210,000 | 202,000 | 195,000 | 187,000 | 180,000 | 174,000 | 167,000 | 161,000 |
| Unemployment benefits: | | | | | | | | | | | |
| Claimants per qualified employees | 6.2% | 6.4% | 6.6% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% |
| Average compensable days | 61.0 | 63.0 | 65.0 | 66.0 | 66.0 | 66.0 | 66.0 | 66.0 | 66.0 | 66.0 | 66.0 |
| Sickness benefits: | | | | | | | | | | | |
| Claimants per qualified employees | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% | 8.3% |
| Average compensable days | 71.0 | 70.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 |
| Ratio of net to gross benefits | 0.62 | 0.61 | 0.60 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 | 0.59 |

NOTE: Average railroad employment is for calendar year, all other items are fiscal year.

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Table 4. Cash Inflow and Outflow of the Railroad Unemployment Insurance Accounts
Based on the Section 7105 Report for June 2001
(Dollar amounts in millions)

| | Fiscal Year | | | | | | | | | | |
|--|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| <u>Intermediate Assumptions</u> | | | | | | | | | | | |
| Contribution rate (%) | 2.32 | 4.45 | 5.46 | 4.01 | 1.97 | 2.26 | 3.55 | 4.04 | 3.42 | 2.85 | 2.90 |
| Contributions | \$50.5 | \$107.5 | \$160.2 | \$154.8 | \$98.7 | \$71.0 | \$98.8 | \$130.4 | \$129.6 | \$110.0 | \$102.2 |
| Net benefit payments | \$100.0 | \$96.2 | \$94.4 | \$93.4 | \$94.8 | \$95.4 | \$96.4 | \$97.7 | \$99.6 | \$100.4 | \$101.8 |
| Administrative expenses | \$16.5 | \$16.8 | \$17.0 | \$17.3 | \$17.6 | \$18.2 | \$18.5 | \$18.8 | \$19.3 | \$19.8 | \$20.4 |
| Loan balance, including interest | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Cash balance, excluding loans | \$28.1 | \$24.0 | \$76.2 | \$127.5 | \$122.4 | \$86.6 | \$75.6 | \$95.3 | \$113.6 | \$111.7 | \$99.3 |
| <u>Optimistic Assumptions</u> | | | | | | | | | | | |
| Contribution rate (%) | 2.32 | 4.45 | 5.32 | 3.49 | 1.54 | 1.71 | 3.05 | 3.64 | 3.16 | 2.31 | 2.46 |
| Contributions | \$51.1 | \$109.8 | \$162.7 | \$149.9 | \$87.4 | \$58.2 | \$87.5 | \$125.7 | \$130.7 | \$107.6 | \$96.1 |
| Net benefit payments | \$100.0 | \$92.7 | \$88.3 | \$84.4 | \$86.5 | \$88.4 | \$90.1 | \$92.7 | \$95.2 | \$97.1 | \$100.2 |
| Administrative expenses | \$16.5 | \$16.8 | \$17.0 | \$17.3 | \$17.6 | \$18.2 | \$18.5 | \$18.8 | \$19.3 | \$19.8 | \$20.4 |
| Loan balance, including interest | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Cash balance, excluding loans | \$28.7 | \$30.6 | \$92.1 | \$148.8 | \$141.9 | \$101.3 | \$86.0 | \$106.6 | \$131.3 | \$131.6 | \$115.8 |
| <u>Pessimistic Assumptions</u> | | | | | | | | | | | |
| Contribution rate (%) | 2.32 | 4.46 | 5.63 | 4.58 | 3.42 | 3.12 | 3.80 | 4.33 | 4.09 | 3.62 | 3.57 |
| Contributions | \$50.1 | \$105.0 | \$156.9 | \$158.6 | \$123.6 | \$101.0 | \$106.5 | \$124.6 | \$129.1 | \$118.0 | \$109.7 |
| Net benefit payments | \$100.0 | \$101.6 | \$104.2 | \$107.0 | \$106.9 | \$106.0 | \$105.4 | \$105.5 | \$105.6 | \$105.0 | \$105.6 |
| Administrative expenses | \$16.5 | \$16.8 | \$17.0 | \$17.3 | \$17.6 | \$18.2 | \$18.5 | \$18.8 | \$19.3 | \$19.8 | \$20.4 |
| Loan balance, including interest | \$0.0 | \$3.8 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Cash balance, excluding loans | \$27.7 | \$19.4 | \$53.7 | \$93.4 | \$99.2 | \$82.2 | \$69.9 | \$75.3 | \$85.5 | \$85.3 | \$75.1 |

NOTE: Contribution rates are calendar year, all other items are fiscal year. Dollar amounts are for combined Railroad Unemployment Insurance Account and Railroad Unemployment Administration Fund.

**Table 5. Trends in Factors Affecting
Railroad Unemployment Insurance Account Financing**

| | 1986 | 1991 | 1996 | 2001 |
|--|---------|---------|---------|------------------|
| Trends in factors affecting revenues (calendar year) | | | | |
| Taxable monthly wage base | \$600 | \$765 | \$865 | \$1,050 |
| Average tax rate ¹ | 8.0% | 6.4% | 2.0% | 3.5% |
| Average employment | 342,000 | 285,000 | 257,000 | N/A ² |
| Trends in factors affecting outlays (benefit year ending) | | | | |
| Number of claimants | | | | |
| Unemployment | 87,600 | 30,500 | 16,800 | 16,700 |
| Sickness | 49,500 | 25,600 | 20,400 | 23,000 |
| Claimants per qualified employees | | | | |
| Unemployment | 20% | 9% | 6% | 6% |
| Sickness | 11% | 8% | 7% | 8% |
| Average compensable days | | | | |
| Unemployment | 65 | 67 | 69 | 57 |
| Sickness | 61 | 69 | 74 | 71 |
| Maximum daily benefit rate | \$25 | \$31 | \$36 | \$48 |

¹ Beginning in 1991, each employer's rate is experience-based, with a minimum of 0.65 percent and a maximum of 12 percent, or 12.5 percent if a 3.5 percent surcharge applies due to a low account balance.

² The intermediate average employment assumption of the 2001 Section 7105 Report was 240,000. The more pessimistic assumption was 237,000.